INCOME TAX

INTRODUCTION AND IMPORTANT DEFINITIONS

Amendments w.e.f. Assessment Year 2021-22
New Section 2(29A), "Definition of Liable to Tax"
New Section 115BAC, New Tax Regime for Individual or HUF.

INTRODUCTION

Income tax is an important direct tax. It is a prominent and most significant source of revenue of the Government. The Government needs money to maintain law and order in the country, safeguard the security of the country from foreign powers and promote the welfare of the people. Since our government is wedded to the socialistic pattern of society it is the foremost duty of the Government to bring out such welfare and development programmes which will bridge the gap between the rich and the poor. All this requires mobilisation of funds from various sources. These sources may be direct or indirect. Income tax, being a direct tax, is an important tool to achieve balanced socio-economic growth by providing concessions and incentives in income tax for various developmental purposes.

➢ **Who is liable to pay income tax**

Every person, whose taxable income for the previous financial year exceeds the minimum taxable limit is liable to pay income tax during the current financial year on the income of the previous financial year at the rates applicable during the current financial year.

BRIEF HISTORY OF INCOME TAX IN INDIA

(1) In India, this tax was introduced for the first time in 1860, by Sir James Wilson in order to meet the losses sustained by the Government on account of the Military Mutiny of 1857.

(2) In 1886, a separate Income Tax Act was passed. This Act remained in force up to 1917, with various amendments from time to time.

(3) In 1918, a new Income Tax Act was passed and again it was replaced by another new Act which was passed in 1922. This Act remained in force up to the assessment year 1961-62 with numerous amendments.

(4) The Income Tax Act of 1922 had become very complicated on account of innumerable amendments. The Government of India, therefore, referred it to the Law Commission in 1956 with a view to simplifying and for the prevention of tax evasion. The Law Commission submitted its report in September 1958, but in the meantime, the Government of India had appointed the Direct Taxes Administration Enquiry Committee to suggest measures to minimise inconveniences to assessees and to prevent evasion of tax. This Committee submitted its report in 1959. In consultation with the Ministry of Law finally the Income Tax Act, 1961 was passed.

(5) The Income Tax Act, 1961 has been brought into force with effect from 1st April, 1962. It applies to the whole of India and Sikkim (including Jammu and Kashmir).

(6) Since 1962 several amendments of far-reaching nature have been made in the Income Tax Act by the Finance Act every year.

(7) Besides this, amendments have also been made by various Amendment Acts, for instance, Taxation Laws Amendment Act, 1984, Direct Taxes Amendment Act, 1987, Direct

Taxes Law (Amendment) Acts of 1988 and 1989, Direct Tax Law (Second Amendment) Act, 1989 and at last The Taxation Law (Amendment) Act, 1991. The amendments in the Finance Acts, 1992 and 1993, are mostly based on the recommendations of Chelliah Committee Report.

(8) As a matter of fact, the Income Tax Act, 1961, which came into force on 1st April, 1962, has been amended and re-amended widely. It has, therefore, become very complicated both for the administering authorities and the tax-payers.

CHARACTERISTICS OF INCOME TAX

1. ***Direct Tax*** : Income is a Direct Tax. Direct Tax means such tax which is paid by a person who bears the tax burden.

2. ***Central Tax*** : Income Tax is imposed and recovered by the Central Government.

3. ***Tax on Total Income*** : Income Tax is calculated on total income. Total income is also called taxable income. Total income is calculated according to the provisions of the Income Tax Act.

4. ***Tax-Exempted Limit*** : If income exceeds tax-exempt limits of income, then tax is imposed. Tax-exempt limit of income for the Assessment Year 2021-22, are as follows :

(A) *Senior Citizen* : Senior citizen (resident in India), who is of the age of 60 years or more but less than 80 years ₹ 3,00,000.

(B) *Super Senior Citizen* : Super senior citizen (resident in India), who is of the age of 80 years or more ₹ 5,00,000.

(C) Other Individuals, HUF, Association of Persons and Body of Individuals ₹ 2,50,000.

(D) *Firm, Company, Local Body* : Nil.

5. ***Progressive Tax Rates*** : Tax is not imposed at the same rate on the total income of an individual, HUF, AOP or BOI. Tax rates increase with an increase in income. Minimum tax rate is 5% and maximum tax rate is 30%. Firms' incomes are taxed at the rate of 30% and companies incomes are taxed at the rate of 15% or 22% or 25% or 30% (which is applicable).

6. ***Surcharge*** : Surcharge is imposed on the amount of income tax. Surcharge rates are as follows for the Assessment Year 2021-22.

(i) ***For individuals, HUF, AOP or BOI*** : (a) @ 10% if total income exceeds 50 lakh rupees but does not exceed 1 crore rupees. (b) @ 15% if total income exceeds 1 crore rupees but does not exceed 2 crore rupees; (c) @ 25% if total income exceeds 2 crore rupees but does not exceed 5 crore rupees; (d) @ 37% if total income exceeds 5 crore rupees.

(ii) ***For Firms*** : @ 12% if total income exceeds 1 crore rupees.

(iii) ***For Domestic Company*** : @ 7% if total income exceeds 1 crore rupees but does not exceed 10 crore rupees. @ 12% if total income exceeds 10 crore rupees.

Note : In above all three conditions, provision of marginal relief will also be applicable.

7. ***Health and Education Cess*** : All assessees are liable to pay health and education cess @ 4% on the total amount of income tax including surcharge.

8. ***Tax Burden*** : Tax is imposed at a progressive rate on the income of individual and HUF therefore rich person bear more tax burden.

9. ***Administration*** : Tax is imposed and recovered by the income tax department. Income Tax Department works under the control of the Central Board of Direct Taxes (CBDT).

10. ***Allocation of Amount of Income Tax*** : The total amount of income tax recovered by government is allocated among the Central Government and the State Government according to the recommendation of the Finance Commission. The State Government will not be given any share of income tax revenue from the following amounts :

(i) Income tax amount recovered from companies.

(ii) Amount of surcharge.

(iii) Amount of health and education cess.

BASIS AND PROCEDURE OF CHARGING INCOME TAX *(Sec. 4)*

The following basic principles are the basis of charging income tax :

1. Income tax is an annual tax on income.

2. Income of the previous year is taxable in the next following assessment year at the rate or rates applicable to that assessment year. However, there are certain exceptions to this rule.

IMPORTANT DEFINITIONS

Under *sections* 2 and 3 of the Income Tax Act, 1961, definitions of important terms used in the Act have been given, some of which are as under :

INCOME

[*Sec.* 2(24)]

'Income' is one of the important terms of the Income Tax Act as income tax is charged on the income of a person. This term has not been defined in the Income Tax Act, except that it states as to what is included in income.

Under this *section* income includes :

(i) profits and gains;

(ii) dividend;

(iii) voluntary contributions received by (a) a trust created for charitable or religious purposes, or (b) by a scientific research association, or (c) by a games or sports association or institution, or (d) any university or other educational institution, or (e) any hospital or other institution, or (f) an electoral trust;

(iv) the value of any perquisite or profits in lieu of salary taxable under the head 'salaries';

(v) any special allowance or benefit specifically granted to the assessee to meet his expenses wholly, necessarily and exclusively for the performance of his duties;

(vi) any allowance granted to the assessee either to meet his personal expenses at the place where he performs his duties or compensate him for the increased cost of living, for example, City Compensatory Allowance;

(vii) the value of any benefit or perquisite which is obtained by any representative assessee;

(viii) any sum chargeable to income tax under the head 'business' or 'profession';

(ix) any capital gains;

(x) the profits and gains of any business of insurance carried on by a mutual insurance company or by a co-operative society;

(xi) any winnings from lotteries, crossword puzzles, races including horse races, card-games and other games of any sort or from gambling or betting of any form or nature whatsoever;

Explanation **:**

(a) 'Lottery' includes winnings from prizes awarded to any person by draw of lots or by chance or in any other manner whatsoever;

(b) "Card game and other game of any sort" includes any game show, an entertainment programme on television or electronic mode, in which people compete to win prizes or any other similar game;

(xii) any sum received by the assessee from his employees as contributions to any provident fund or superannuation fund or any fund set-up under the Employees' State Insurance Act or any other fund for the welfare of such employees;

(xiii) any sum received under a Keyman Insurance Policy including the sum received by way of bonus on such policy.

Keyman insurance policy means a life insurance policy taken by a person on the life of another person who is or was (a) an employee of the first person, or (b) connected in any manner with the business.

The sum of keyman insurance policy is assessable as following :

(a) When the sum is received by the organisation, who has taken the policy, it is assessable under the head profits and gains of business or profession.

(b) When the amount is received by the employee, it is assessable as profits in lieu of salary.

(c) When the amount is received by a person, where an employer-employee relationship does not subsist (Chairman or Director etc. of a company), it is assessable under the head income from other sources.

the assessee, the same is merely an application of income and tax liability cannot be avoided.

(14) Income may be in *plus* or *minus*. Minus income means loss, hence losses are also included in the term 'Income'.

GROSS TOTAL INCOME [*Sec.* 80B(5)]

The aggregate of the income under the following heads is known as gross total income :

(i) Income from salaries;

(ii) Income from house property;

(iii) Profit and gains of business or profession;

(iv) Capital gains; and

(v) Income from other sources.

The income under each head is computed after making deductions permissible under that head.

Further, the brought forward losses shall be deducted (as provided in the Act) to arrive at the assessable income.

TOTAL INCOME [*Sec.* 2(45)]

Total income means the amount left after making the deductions under *sections* 80C to 80U from the gross total income.

The amount so arrived is rounded off to the nearest multiple of ten rupees.

Difference between Gross Total Income and Total Income

	Gross Total Income	*Total Income*
1.	Aggregate of various heads of income is called Gross Total Income.	After deductions under *sections* 80C to 80U, the balance is called Total Income.
2.	Gross Total Income is not rounded off.	Total Income is rounded off to the nearest multiple of ten rupees.
3.	Tax is not levied on Gross Total Income.	Tax is levied on the Total Income at the prescribed rates.
4.	Gross Total Income cannot be less than Total Income.	Total Income can be equal to GTI or less than GTI.
5.	Agricultural income is not included in GTI.	If agricultural income exceeds ₹ 5,000, it is included in the Total Income of an individual or HUF to determine the tax payable by the assessee.

See chapter on "Agricultural Income".

CASUAL INCOME

Any receipt which is of a casual and non-recurring nature is casual income. In other words casual income is that income the receipt of which is accidental and without any stipulation. It is in nature of an unexpected wind-fall.

Winnings from lotteries, crossword puzzles, card games and other games of any sort or from gambling or betting of any form or nature whatsoever are casual incomes. Receipts even from habitual betting are non-recurring receipts and assessable as casual income.

The casual income does not include :

(i) (a) capital gains; or

(b) receipts arising from business or the exercise of a profession or occupation; or

(c) receipts, by way of addition to remuneration of an employee, such as bonus, gratuity perquisites, etc.

(ii) Voluntary payment received in exercise of occupation are not treated as casual income *e.g.*, tips given in an ordinary way to taxi-drivers in the employ of taxi-owners are income arising from the exercise of an occupation. Similarly, gratuities to waiters in a hotel are taxable. A receipt may be taxable as income arising from the legal exercise of the profession even if the amount is received as a gift from the third party to whom the legal services were not rendered and who was under no obligation to pay anything at all.

If an architect submitted a plan in a competition for the construction of a building, the prize won by him, is income from profession.

(iii) A gift from a relative is not income at all. Birthday and wedding gifts are the simplest instances in point. A gift from a relative does not become income merely because it is repeated year after year. A regular allowance is given year after year purely as a voluntary gift by a parent to a child or by a husband to his wife, or by one relation to another, is merely a fresh gift every time it is paid and does not amount to income.

(iv) Payment by the husband to his wife under an agreement to live apart as maintenance allowance is neither casual income nor a personal gift. Hence, it is taxable.

➢ OTHER PROVISIONS RELATING TO CASUAL INCOME

(i) ***Expenses are not deductible*** : If expenses are incurred to receive casual income, such expenses are not deductible from any income. *For example*, an individual purchases lottery tickets, the cost of lottery tickets is not deductible from any income whatsoever. Similarly, if postal charges have been paid for sending crossword puzzles, such charges (expenses) are not deductible from any income.

(ii) ***Set-off of losses not permitted*** : If instead of casual income there is a casual loss, such loss cannot be set-off from any income. *For example*, if a person wins in a card game on the first day and loses the next day, he cannot set-off the loss against any income.

(iii) ***Tax deduction at source*** : If the winnings from any lottery, horse race, crossword puzzle, card game and other game of any sort exceed ₹ 10,000, the tax will be deducted at source at the prescribed rate.

(iv) ***Rate of tax*** : On winnings from lotteries, crossword puzzles, races, gambling, betting, etc. tax is chargeable @ 30%.

■ ***Illustration 1***

State whether the following receipts are casual incomes :

(i) Mr. X received ₹ 5,000 for acting once as an arbitrator without any stipulation as to remuneration.

(ii) Mr. Y received ₹ 5,000 for acting as an arbitrator with a clear and definite stipulation for the said remuneration.

(iii) Mr. X, a decree-holder, received interest of ₹ 500 under an order of the court granting a stay of execution of the decree on judgment-debtor Mr. Y.

(iv) Mr. X is in the service of Mr. Y. Mr. Y's son was lost and Mr. X. traced him out without any stipulation of reward but Mr. Y gave him a reward of ₹ 500.

Solution

(i) The receipt is of a casual and non-recurring nature as there was no stipulation for remuneration.

(ii) Mr. Y was offered a definite remuneration for acting as an arbitrator and he accepted the work of the remuneration, hence, the receipt is not of a casual nature.

(iii) Interest of ₹ 500 received by the decree-holder is not a casual income.

(iv) It is of casual and non-recurring nature as there was no stipulation for the reward.

ASSESSEE

[*Sec.* 2(7)]

An assessee means a person :

(i) who is liable to pay any tax; or

(ii) who is liable to pay any other sum of money under this Act (*e.g.*, interest, penalty, etc.); or

(iii) in respect of whom any proceeding under this Act has been taken for the assessment of his income or assessment of fringe benefits; or

(iv) in respect of whom any proceeding under this Act has been taken for the assessment of the income of any other person in respect of which he is assessable; or

(v) in respect of whom any proceeding under this Act has been taken for the assessment of the loss sustained by him or by such other person; or

(vi) in respect of whom any proceeding under this Act has been taken for the amount of refund due to him or to such other person; or

(vii) who is deemed to be an assessee under any provision of this Act; or

(viii) who is deemed to be an assessee in default under any provision of this Act.

➢ DEEMED ASSESSEE

A person who is deemed to be an assessee for some other person is called 'Deemed Assessee'. *For example*, (i) after the death of a person, his legal representative will be treated as an assessee for that income of the deceased on which tax has not been paid by the deceased before his death; (ii) a person representing a foreigner or a minor or a lunatic is treated as an assessee for the income of such foreigner or minor or lunatic.

➢ ASSESSEE IN DEFAULT

When a person is responsible for doing any work under the Act and he fails to do it, he is called an 'Assessee in Default'. *For example*, if a person while making any payment to another person, is liable to deduct income tax thereon at source, does not deduct income tax therefrom, or having deducted, does not deposit it in the Government Treasury, he will be treated as an assessee in default for that income tax.

ASSESSMENT YEAR

[*Sec.* 2(9)]

Assessment year means the period of twelve months commencing on the first day of April every year and ending on 31st March of the next year. An assessee is liable to pay tax on the income of the previous year during the following financial year (the assessment year).

LIABLE TO TAX[1]

[*Sec.* 2(29A)]

"Liable to tax," in relation to a person and with reference to a country, means that there is an income tax liability on such person under the law of that country for the time being in force and shall include a person who has subsequently been exempted from such liability under the law of that country.

[1] Inserted by the Finance Act, 2021 *w.e.f.* Assessment Year 2021-22.

PERSON

[Sec. 2(31)]

'Person' includes the following :

(i) an individual;
(ii) a Hindu Undivided Family;
(iii) a company;
(iv) a firm;
(v) an Association of Persons or a Body of Individuals whether incorporated or not;
(vi) a local authority; and
(vii) every artificial juridical person, not falling within any of the preceding sub-clauses.

An individual means a natural person or a human being, who may be male, female, minor child or a lunatic.

A Hindu Undivided Family means a Hindu family which consists of all persons lineally descended from a common ancestor including their wives and unmarried daughters.

A company may be defined as an artificial person created by law with perpetual succession, a common seal and shares carrying limited liability.

As per section 2(17) of the Income Tax Act, a company means :

(i) any Indian company, or
(ii) any body corporate incorporated under the law of a foreign country, or
(iii) any institution, association or body, whether incorporated or not and whether Indian or non-Indian, which is declared by general or special order of the Central Board of Direct Taxes to be a company.

A firm means a partnership firm which is defined under the Partnership Act.

An Association of persons means two or more persons joining for a common purpose for the purpose of earning income. The A.O.P. may consist of two or more individuals or any other persons, *i.e.*, an individual and a company or two or more companies.

Body of individuals means a conglomeration of individuals who come together by chance, *e.g.*, by birth or testamentary dispositions.

'Local Authority': An authority legally entitled to or entrusted by the Government with the management or control of a municipal or local fund. Such authority includes Municipality, Municipal Corporation, District Board, etc.

Artificial juridical person includes a public corporation which is established under special Act of legislature, an idol or deity, university, etc.

PREVIOUS YEAR

(*Sec.* 3)

The year in which income is earned is known as the previous year and the next year in which this income is taxable is known as the assessment year. Income tax is charged on the total income of the previous year at the rates prescribed by the relevant Finance Act for the assessment year :

(1) Generally, the previous year means the financial year immediately preceding the Assessment Year. The Financial Year begins on 1st April and ends on 31st March.

(2) The financial year (year ending on 31st March) will be uniform for the previous year for all the assessees and for all sources of income.

(3) In the case of a newly set-up business or profession or any other new source of income during the financial year, the previous year will begin from the date of setting up of the new business or profession or from the date of coming into existence of the new source of income and will end with the said financial year. In this case, the first previous year may be of less than 12 months.

In other words, the financial year is both the previous year as well as the assessment year. It is the previous year for the income earned during that financial year and the assessment year for the income earned during the preceding financial year, *e.g.*, the Financial Year 2021-22 is the

previous year for current income and is the assessment year for the income earned during the Financial Year 2020-21.

Note : There is no compulsion on any assessee to close his accounts on 31st March only. If for any reason, personal, religious or any other ground an assessee wants to close his accounts on a date different from 31st March, he can do so. However, he would be required to make up his accounts on 31st March also, for the purpose of submitting the Income Tax Return.

The meaning of the term *the previous year* can be better understood by the following illustrations :

■ ***Illustration 2***

An assessee commences his business on :

(i) 1st July, 2020;

(ii) 1st October, 2020; and

(iii) 1st January, 2021.

In each case, what will be his assessment year and what period will be treated as his previous year for the concerned assessment year?

Solution

In every case his Assessment Year will be 2021-22 and in each case, the preceding period will be his Previous Year :

(i) 1st July, 2020 to 31st March, 2021, (ii) 1st October, 2020 to 31st March, 2021, (iii) 1st January, 2021 to 31st March, 2021.

■ ***Illustration 3***

(1) Shri Ram Gopal was appointed on 1.7.2020 as a lecturer in a college on probation. He was confirmed on 30.6.2021.

(2) Shri Amar Nath was appointed on 1.9.2020 as a lecturer against leave vacancy of Shri Ram Nath. Shri Ram Nath joined the college on 1.2.2021.

(3) M/s Ram Lal Bhajan Lal maintain the books of account of their business on the calendar year basis. They prepared their final accounts on 31.12.2020.

Under the above mentioned cases what would be the duration of the previous year for the Assessment Year 2021-22?

Solution

(1) The previous year for Shri Ram Gopal shall be from 1.7.2020 to 31.3.2021.

(2) The previous year for Shri Amar Nath shall be from 1.9.2020 to 31.1.2021.

(3) The previous year for M/s Ram Lal Bhajan Lal shall be from 1.4.2020 to 31.3.2021. They are required to make up their accounts up to 31.3.2021 for the purpose of submitting the return of income.

Exceptions to the general rule i.e., Taxation of the previous year's income during the same year

Income tax is charged on the income of the previous year during the assessment year. However, there are certain exceptions to this rule. In the following cases the assessee is liable to be assessed to tax in the same year in which he earns the income :

(i) ***Income of non-resident from shipping business*** : In the case of a non-resident carrying shipping business any income derived from carrying passengers, livestock, mail or goods shipped at a port in India, will be taxed in the year of its earning. 7½% of the amount paid or payable on account of such carriage will be deemed to be the income. (*Sec.* 172)

(ii) ***Income of persons leaving India*** : When an individual may leave India during the current assessment year or shortly after its expiry, and that he has no present intention of returning to India, the total income of such individual for the period from the expiry of the previous year for that assessment year up to the probable date of his departure from India shall be charged to tax in the same assessment year. (*Sec.* 174)

(iii) ***Income of an Association of Persons or a Body of Individuals or an artificial juridical person formed for a particular event or purpose*** : Where any A.O.P or B.O.I or an artificial

juridical person is formed or established or incorporated for a particular event or purpose and is likely to be dissolved in the assessment year in which it is formed or established or incorporated or immediately after such assessment year, the total income of such assessee for the period from the expiry of the previous year for that assessment year up to the date of its dissolution, shall be chargeable to tax in that assessment year. (*Sec.* 174A)

(iv) ***Transfer of property to avoid tax*** : Where an assessee is likely to transfer his property to avoid tax, the total income of such person for the period from the expiry of the previous year for the assessment year to the date when the Assessing Officer commences proceeding under *section* 175 shall be chargeable to tax in the same assessment year. (*Sec.* 175)

(v) ***On discontinuance of a business or profession*** : In the case of discontinuance of a business or profession, the income of the period from the expiry of the previous year for the assessment year in which the business or profession is discontinued up to the date of such discontinuance may be charged to tax in the same assessment year. (*Sec.* 176)

The tax on the incomes discussed under (i) to (v) shall be charged at the rates prescribed for payment of advance tax during the relevant financial year. *For example*, Mr. A is leaving India on 10th July, 2021. The tax on the income for the Previous Year 2020-21 shall be charged at the rates prescribed for the Assessment Year 2021-22 and tax on income from 1.4.2021 to 10.7.2021 shall be charged at the rates prescribed for payment of advance tax during the Financial Year 2021-22.

Difference between the Previous Year and the Assessment Year

	The Previous Year	***The Assessment Year***
1.	*Sec.* 3 of the Income Tax Act is formed for the Previous Year.	*Sec.* 2(9) is formed for the Assessment Year.
2.	Previous Year means the financial year immediately preceding the assessment year.	Assessment Year means the period of twelve months commencing on the first day of April every year and ending on 31st March of the next year.
3.	Previous Year may be less than 12 months in case of newly set-up business or profession.	Assessment Year will always be for a period of 12 months.
4.	The year in which income is earned is known as the Previous Year.	The next year in which the previous year's income become taxable is known as the Assessment Year.

■ ***Illustration 4***

The total income of Mr. A for the Assessment Year 2021-22 is ₹ 10,60,000. Mr. A got the appointment letter from a foreign country. He will leave India on 20th Sept., 2021. His estimated income from 1.4.2021 to 20th Sept., 2021 is ₹ 6,60,000. How much tax he has to pay before leaving India?

Solution

Mr. A has to pay tax on his income as under during the Financial Year 2021-22 :

	₹
(i) Tax on ₹ 10,60,000 *i.e.*, total income for the Assessment Year 2021-22 :	
Tax on ₹ 2,50,000	Nil
Tax on ₹ 2,50,000 @ 5%	12,500
Tax on ₹ 5,00,000 @ 20%	1,00,000
Tax on ₹ 60,000 @ 30%	18,000
	1,30,500
	5,220

	₹
(ii) Tax on ₹ 6,60,000 (Income up to the date of leaving India) at the rates prescribed for payment of advance tax during the Financial Year 2021-22 :	
Tax on ₹ 2,50,000	Nil
Tax on ₹ 2,50,000 @ 5%	12,500
Tax on ₹ 1,60,000 @ 20%	32,000
	44,500
Add : Health and Education Cess @ 4%	1,780
	46,280

Note : The tax is payable in the same year (2021-22) in which the income is earned (2021-22).

MAXIMUM MARGINAL RATE

[Sec. 2(29C)]

It means the rate of income tax (including a surcharge on income tax, if any) applicable in relation to the highest slab of income in the case of an individual, Association of Persons or Body of Individuals as specified in the Finance Act of the relevant year.

Note : The rate of income tax for the highest slab of income for the Assessment Year 2021-22 is 30%. Surcharge 10%, 15%, 25%, 37% as the case may be. Further, on the amount of income tax and surcharge health and education cess is leviable @ 4%.

PERMANENT ACCOUNT NUMBER

(Sec. 139A)

PAN means a number which the Assessing Officer may allot to any person for the purpose of identification.

PAN has ten alphanumeric characters.

Application for PAN : If an assessee has not been allotted a Permanent Account Number he must apply for it in Form No. 49A within the prescribed time. The Assessing Officer has also got power to allot to any other person a Permanent Account Number if tax is payable by such person.

Quoting PAN : Once a Permanent Account Number has been allotted, such number must be quoted in all Returns, correspondence with Income Tax Authorities, challans for payment and in all documents prescribed by the Board.

It helps in linking the aforesaid documents to his assessment records to facilitate quick disposal of his assessment and refund claim.

The assessee must intimate to the Assessing Officer about any change in the address, name or nature of business carried on by him.

Now an assessee may use his Aadhaar number in lieu of PAN.

TAX DEDUCTION AND COLLECTION ACCOUNT NUMBER (TAN)

(Sec. 203A)

Every person, deducting tax or collecting tax at source, who has not been allotted a tax deduction account number or a tax collection account number shall apply in duplicate in Form No. 49B within one month from the end of the month in which the tax was deducted or collected to the A. O. for the allotment of a 'tax deduction and collection account number'.

Where a "tax deduction and collection account number" has been allotted to a person, he shall quote such number in the prescribed documents.